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RESPONDING TO CHANGE IN AGRICULTURE ★ NOV 28 1936 ★

U. S. Department of Agriculture

Adapted from an Address by Henry A. Wallace,  
Secretary of Agriculture, at the Annual Meeting of the Land Grant  
College Association at Houston, Texas, on November 16, 1936.

U.S. Department of Agriculture, Agricultural Adjustment Administration, Washington, D.C

### H I G H L I G H T S

WE HAVE JUST COME THROUGH TWO DEVASTATING DROUGHTS occurring inside a space of three years. They have reminded us most forcibly of the fact that the wiping out of farmers' incomes over wide areas means widespread destruction of urban business and wages likewise. The whole people, represented by the Government, have a stake in such situations which, in this day and age, can not be sidestepped.

THERE ARE VERY GREAT POSSIBILITIES both for producers and consumers in the stabilization of supplies through a system which would store food products in time of plenty to be available in time of want.

AT LEAST FOUR DEFINITE PROBLEMS arise in this consideration of a system of crop insurance with payments in kind. First, there is the problem of determining loss rates and premium rates. Second, there is the problem of collecting and assembling such premium payments made in kind. Third, naturally the question of storage at once arises; where and how shall the quantities of crops so collected be stored? Fourth, there is the question of the disposition of the stored product; should losses be paid directly out of it or should it be sold and the proceeds distributed in dollars equivalent to the product? If some of the stored product is sold, should there be a policy of replacement by purchases in the market so as to maintain the reserves?

CERTAINLY WE DO NOT WANT TO PUT A PREMIUM on bad farming nor upon farming bad land. I think that if the cost of insurance is based, in considerable part, upon the loss experience of the specific farm, in each instance, it will tend to take care of that aspect. Then if some kind of system of payments in kind is set up, it will tend to take care in part of the price problem. And if payment of the premiums can be conditioned to the good crop years, that will tend to take care not only of one great difficulty from the farmer's standpoint but it will help to iron out a surplus-shortage gyration that has bedeviled producers and markets since the beginning of this modern era.

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### RESPONDING TO CHANGE IN AGRICULTURE

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A little while back the agricultural problem with which we had to grapple was foremost an emergency problem. I believe that now we must be taking stock of programs addressed to the longer-time situation.



Now it appears that we may be standing upon the threshold of better times, perhaps of something like a new era. In this new era, our permanent policy with respect to agriculture, as I see it, must shape itself to give the farmer his fair share of prosperity, having due regard to the long-time interests of the national community as a whole.

On the broader question of national policy, it does seem probable to me that crop insurance is likely to fall within the range of permanent constructive measures. I view it as merely one more aid toward the goal, one more auxiliary to strengthen the general farm program.

We have just come through two devastating droughts occurring inside a space of three years. They have reminded this highly interdependent community most forcibly of the fact that the wiping out of farmers' incomes over wide areas means widespread destruction of urban business and wages likewise. The whole people, represented by the Government, have a stake in such situations which, in this day and age, can not be side-stepped.

#### GOVERNMENT'S STAKE LARGE IN EMERGENCY

The Government's stake becomes apparent also from another angle. In the 1934 drought, for instance, an emergency fund of \$500,000,000 was set up. The Government was obliged to assist in the drought areas in many ways, including direct relief as well as the purchase and movement of considerable livestock. The Government has advanced hundreds of millions of emergency seed loans, etc. since 1920. The relief item is certain to be a large one in bad crop years. In other words, the Government might with profit, shoulder certain expenses incident to a crop insurance plan which private companies could not be expected to assume because Government's responsibility to its citizens involves a humanitarian commitment anyhow.

What are the possibilities for crop insurance? Will it help to put us one more step forward on that road toward permanent security and prosperity which is the goal of all farm policy? Is it feasible and practical?

The crop insurance idea does not represent a new field of thought. It has been talked about among farmers and in Congress for a long time. The Department of Agriculture has been studying it in one way and another for fifteen years. Small experiments in writing all-risk crop insurance have been made from time to time by private companies since 1899. Now it appears probable that we are coming up to the point of real action in this field. Consequently the need for constructive thought and for cooperation, especially on the part of people in the educational field, becomes urgent. Representatives of the old line insurance companies, of warehouse interests, and of farmers recently have met with us in Washington and have assured us of a practical cooperation which is going to have a very real importance in the operations of any plan which may be worked out.

There is no disposition to rush into any half-baked scheme along this line. The committee appointed by the President to report relative to possible legislation on crop insurance has not contemplated action on more



than one or two crops at first. We have been exploring the possibilities in the case of wheat, corn and cotton but I think it is the feeling of all who are close to the subject that the wise thing is to start slowly with an experimental undertaking in one or two crops.

#### MILLIONS OF INDIVIDUAL FARM RECORDS STUDIED

The Department has for some time been making a detailed study of the millions of individual farm records which have come to us through the A.A.A. program. It goes without saying that the actuarial problem is the first great thing to be met before we can make a practical start in crop insurance. One of the stumbling blocks for private companies has always been the lack of any adequate background of individual farm data, over a period of years, which would furnish a working basis from which to calculate either premiums or losses. The records which we have obtained as a result of the A.A.A. program furnish a considerable body of such data for the first time.

One respect in which the position of the Government is different from that of the private insurance companies is that the Government can more readily take payments in kind. This, I believe, is a very important consideration. When a private company writes an insurance contract to indemnify a farmer for a given amount of money loss, it assumes the risk not only of physical loss of the crop but of price fluctuations as well. By building a system of payments in kind we would fairly well eliminate the price factor. The price problem is a question by itself. Moreover, as I have many times said, I believe there are very great possibilities both for producers and consumers in the stabilization of supplies through a system which would store food products in time of plenty to be available in time of want.

I might sketch for you very briefly some of the things that the Department's study of crop insurance has brought to the forefront. The idea would be to set up all-risk insurance covering a certain percentage of average yields, as figured over a period of years. It would be wholly optional with farmers whether they wished to come into the plan. The premiums on a given farm would be based, let us say, upon the loss experience on that farm as shown over a period of years, the figure for the individual farm to be adjusted by using the loss experience of the county as an adjusting factor.

At least four definite problems arise in this consideration of a system of crop insurance with payments in kind. First, there is the problem of determining loss rates and premium rates. Second, there is the problem of collecting and assembling such premium payments made in kind. Third, naturally the question of storage at once arises; where and how shall the quantities of crops so collected be stored? Fourth, there is the question of the disposition of the stored product; should losses be paid directly out of it or should it be sold and the proceeds distributed in dollars equivalent to the product? If some of the stored product is sold, should there be a policy of replacement by purchases in the market so as to maintain the reserves?



## PAYMENTS POSSIBLE IN KIND OR IN CASH

As one alternative, possibly the farmer might pay premiums in cash equivalent and then the Government might convert this cash into the physical commodity and store the latter. The payment of losses also might be made in various ways. The farmer might be paid in kind; or possibly he might be given a warehouse receipt; or perhaps he might be given an option on the given quantity of stored product due him which he could liquidate and receive a check therefor.

A possibility bearing upon the point I mentioned a moment ago of storage in years of plenty, is that farmers might pay their premiums only in years of good crops. That is to say, when a man had a bad year and a poor crop, he would make no premium payment that year but in a season of good crop he would pay premiums not only for the good year but for the bad ones also. Thus, if the premium on a certain farm for wheat insurance happened to be half bushel per acre per year, the farmer would pay two and one-half bushels per acre over a period of five years, but he might make this two-and-one-half bushel payment out of the crops of two seasons or three seasons, rather than out of the crops of all five seasons.

Certainly we do not want to put a premium on bad farming nor upon farming bad land. I think that if the cost of insurance is based, in considerable part, upon the loss experience of the specific farm, in each instance, it will tend to take care of that aspect. Then if some kind of system of payments in kind is set up, it will tend to take care in part of the price problem. And if payment of the premiums can be conditioned to the good crop years, that will tend to take care not only of one great difficulty from the farmer's standpoint but it will help to iron out a surplus-shortage gyration that has bedeviled producers and markets since the beginning of this modern era.

Crop insurance might well begin with only one crop -- perhaps wheat. Producers of wheat appear to be the most eager to have it tried.

But whatever is done about crop insurance in the immediate future, it cannot and is not expected to serve as a substitute for other programs. That is an important point.

There is more than a single problem to be attacked. There is more than one situation to meet. We need a broad, coordinated attack on many problems.